“Arvind SmartSpaces Limited Discussion on Financial Results for the Quarter and Half Year ended 30th September 2021 Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Arvind SmartSpaces Limited discussion on financial results for the quarter and half year on 30th September 2021 conference call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' and '0' on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamal Singal - Managing Director and CEO. Thank you and over to you sir.

Kamal Singal: Thank you. A very warm welcome to all of you and thank you very much for sparing time for this call. I will just go through some of the important developments which have happened at Arvind SmartSpaces in the last quarter and a little before that. At Arvind SmartSpaces one of the important milestone that we achieved is that we have completed the preferential allotment process, worth Rs. 85 crores in favor of HDFC Capital Advisors and promoters. If you can recollect, last quarter the Board had approved this transaction, wherein HDFC Capital has picked up in excess of 8% stake in the parent company which is SmartSpaces. So that transaction per se, from all points of view have been completed during the previous quarter. And consequently Mr. Vipul Roongta has joined the Board, as a nominee director from HDFC Capital side. So, extremely happy to share this information with you, and that obviously brings two of the largest and the greatest brands in this country together to add a lot of value to all the stakeholders. So that is as far as this important information is concerned.

Coming to the market side and the business side. Last quarter and even before that, maybe couple of quarters, we have seen a very clear revival of real estate industry in the true sense. Obviously, COVID had an impact on everything that was being done. But nevertheless the rebound has been truly widespread across markets and across segments also. So we have clearly seen the impact of the revival in our numbers.

From the industry standpoint, I think most of the segments in most of the cities and markets are now either very close to, or they have already surpassed the levels of pre-COVID when it comes to the sales and even launches, and that is quite understandable. The pent-up demand is obviously there and more than the pent-up demand I think it is also about customer's confidence which is coming back into this segment as an investment class as well. So they see value in investing real estate. They see now a very clear reason why they should be having bigger homes, and now why they should be having a home at all, which is owned by them. So the overall demand and consumer confidence is into a very-very positive trajectory. And in our understanding, the demand is organically growing, and it is also having an impact from COVID, where there is a positive impact in terms of people feeling the need of having houses which are little, bigger houses, which are in the outskirts, houses which are little less densely populated, etc. etc. and that is driving the demand further.

We also know that this is possibly one of the best times to buy houses. The affordability index, as everybody talks about these days is at its best, possibly at its best historically and interest rates are at all-time low. There are a lot of funds which are available and funding houses is quite an option. The cost of owning a house, in terms of EMI is in percentage of income that one needs to share for the segment which is relevant to a consumer looks very attractive. And the difference between the rental that one has to pay and the EMI that one has to pay after having contributing to the initial investment in a house to be owned has narrowed significantly and hence it makes a lot of sense for consumers and customers to buy houses rather than rent houses, and hence demand for new houses is kind of going into a very-very positive direction so to say.

So all in all, it is a very positive outlook that we feel, and with the structuring and formalization of economy and our segment per se, of the branded and the organized players are seeing double benefits. One the demand is up, two there is a clear preference of real estate as an investment class etc. But at the same time there is a clear trend of consolidation which are now happening. We all anticipated that to happen in some time or sometime back but I think it is happening at this point of time. We can feel the difference there. People are clearly preferring to buy houses from players who have a credibility and legacy etc. And also because of regulatory requirements and nuances getting added into the business per se, it makes much more sense for the landlords to rather involve a developer who has capability, and systems and processes in place to do the business, rather than everybody trying to do a real estate on their own. And hence we see this kind of a consolidation where the smaller developers possibly are already kind of exiting, and bigger and more organized and formalized players are becoming more entrenched and more kind of bigger in the sense of volume etc.

So that is a great trend as far as Arvind SmartSpaces is concerned. We have also got some of the important milestones achieved in terms of our cash flows in the last couple of quarters. They have been extremely strong, which has resulted into our debt levels plummeting down to an abysmally low levels, which basically means that they save interest and they save costs etc., that is one part of it. But the more important point here is that they also give us now a headroom to raise debt, fresh debt. Now that we are entering into the next orbit of our investment and investment cycle has to restart, in fact, it has already re-started in one or the other sense already for us, but what it means is that we have a lot of scope now to pump in money from all the three possible sources. Internal accruals that have been very strong in the last couple of quarters, we will share some information that. At the same time, equity infusion has happened, recently from promoters, HDFC Capital etc. and a little more capital is anticipated in the next couple of quarters etc. Along with that there is a significant headroom to raise equity, I mean debt for example. So all these resources, make us believe that we have enough and more kind of fuel to take the investment cycle to the next level and we have already started working around this. And we expect that a lot of action should happen on that in the coming quarters. And we have just about kick started this growth kind of momentum in the last few months post-COVID.

Coming specifically to the numbers. Just to take you through some of those positive thing. First, fresh sales have gone up by 64% at Rs. 293 crores, so this is for the first half, and for the quarter it has gone up at 17% at Rs. 184 crores. Similarly collections have gone up very drastically, growth of 218% year-on-year for the first half at Rs. 280 crores and for the quarter these stand 140% up at Rs. 161 crores. Unrecognized revenues are at Rs. 955 crores as on 30th September against a number of Rs. 562 crores last year same time. In terms of financial numbers, revenues are up 31% year-on-year for the first half at Rs. 53 crores and there is a decline of 14% year-on-year for the quarter at Rs. 25.7 crores. PAT is up by Rs. 8 crores to Rs. 5.2 crores as compared to last year, for the first half and there is a 37% growth, on a very small base obviously of around Rs. 2.7 crores for the current quarter.

So that is broadly the snapshot of revenues, collections etc. We definitely are still lagging behind in terms of recognizing revenue in books of account, and that is why we keep seeing these pent ups into our reported numbers in the formal books of accounts. But nevertheless, the trend on fresh sales and booking any spends etc. is very-very encouraging. The company is at very-very strong footing. The operational performance, the sales performance etc. is highly encouraging in the last couple of quarters. We have seen a very strong collection, very strong fresh booking and hence we feel that this is the perfect time to get into the next orbit of investment in creating pipeline, which we are working around and we have very recently kind of kick-started our investment cycle as I just said before. So that is pretty much from my side. Maybe we can now take questions if you have any.

Moderator: Thank you very much sir. First question is from the line of from Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Sir, my question is our High Grove sales, they have dipped in this quarter. So if you could please comment on that?

Kamal Singal: Sure. So, last quarter we say comparing this with that, then you know it was a launch. I mean after the launch the momentum is very strong in our understanding and we are selling fairly well there in any case. But obviously as compared to a launch period, the stabilization period is supposed to be a little moderate and that is what is happening. But otherwise it is very-very encouraging. There is quite a heavy traffic in terms of footfall and interest there, and they are selling very healthy. In the phase two of High Grove, which is called Chirping Woods, essentially it is the same it is the project, there also the numbers could be actually read by clubbing these two as one location etc. We open the next phase also of the same project. So all in all it is pretty strong and it is doing very well for us.

Rishikesh Oza: Because last year around 500,000 square feet we used to sell per quarter on an average, and this quarter it is like around 28,000-30,000 square feet. So when do you think it will bounce back again?

Kamal Singal: For High Grove?

Rishikesh Oza: Yes.

Kamal Singh: So as I said, launch period always is supposed to be extremely different from a stabilized phase, and that is what is happening. This quarter High Grove and Chirping Woods put together, possibly sold around Rs. 13 crores. And we target to sell around Rs. 5 to Rs. 10 crores a month in any case. So a Rs. 20-Rs. 25 crores is a steady state sales, which is very healthy. A Rs. 80 to Rs. 100 crores sales in one project at one location in Ahmedabad market is supposed to be fairly decent. So averaging around Rs. 15-Rs. 20 crores would happen and should continue to happen going forward. Obviously it is going to be or it is supposed to be reading a little lower as compared to what the launch numbers are. Launch was extremely successful. It has got a very-very high traction and possibly one of the most successful ones for us. But now we are in steady state phase where the number are still very healthy and we expect that the momentum will continue this way.

Moderator: The next question is from the line of Shantanu Mantri from Think Investments. Please go ahead.

Shantanu Mantri: I have two questions. The first question is I wanted some details on the cash flows for the quarter. So we know your collections are at Rs. 161crores. I wanted to know some details on the cash outflows for the quarter. So the construction costs, the overhead outflow, and the finance cost.

Kamal Singal: I will request Ankit Jain our CFO to answer your question.

Ankit Jain: So to answer your question, we do not give very specific details on quarter wise outflow. But for your good analysis and comparison, now we are started giving you a projection at a summary level, operating cash flow. So we have presented this operating cash flows for our June quarter, on September 28th as a part of corporate strategy presentation, which is there on our website. You can go through that. And now we have refreshed this for September. So the data you can derive is the Quarter 2 number, instead of giving very specific number. And besides that, as we discussed and we promised in the last conference call that we will be giving more details in terms of cash outflow and all. So this is the format we have chosen and now we will be presenting this format every quarter, in terms of what is the estimated operating cash flow from the business, which has been launched and which is yet to be launched.

Kamal Singal: So I will suggest you go through the refresh presentation which is already uploaded. It will have a fair amount of data on operating cash at project level etc. I think most of the queries should be answered there. But as a very broad conclusion, we can see the collection is what we know, the debt levels have gone down, quite decently during the period. It has gone down by around Rs. 50 crores. So this Rs.50 crores pretty much was the surplus after covering for overheads and perception expenses and everything else that one was supposed to be spending, and in fact little bit of that money also went towards acquisition of new projects. So after covering for all these Rs. 50 crore net reduction in debt has come. So that is the net summary of this, but the presentation should give you a little more detail about how things are moved at the project level or operating cash.

Shantanu Mantri: My second question is now on a broader level. I see we have around Rs. 955 crores of unrecognized revenue and another Rs. 2,900 crores of inventory, which includes both our launched and to be launched projects, and this I am seeing will happen over the next 3 years. So we have around a total sales of Rs. 3,900 crores and if I just do a rough calculation around Rs. 1,100-Rs.1,200 crores of EBITDA and that is also shown in your presentation, that Rs. 1,278 crores of estimated operating cash flow. So, my question here was on timing. I see most of these projects are going to get completed in 2024. So if you could give us some picture on a division of these cash flows for the next 3 years, in your estimate that would be really helpful.

Kamal Singal: So in the presentation if you see one of the slides which is called Project Details, and in the Segment-B, which basically refers ongoing projects from the other files we know how much is the operating cash in those ongoing projects, and also this sheet tells you by when the project is expected to be completed. So this will give you a fair idea and a basis to do the numbers, and calculation to safely arrive at an NPV, that is the idea that you are trying to achieve with these two sheets put together. Now I think, it is important to just collate these two things and you should get the numbers or the analysis that you possibly wanted to do from this.

Ankit Jain: We don't provide year wise forecast.

Kamal Singal: But year wise forecast at this point of time we don’t provide. I mean, we are currently focusing on execution and also focusing on what we have immediately on our hand. So we just want to be a little conservative about forecasting times in future. But I think there is enough and more data for a real estate expert to decipher and calculate what kind of numbers can be expected from this coming 2-3 years.

Shantanu Mantri: One last question. This Rs. 1,278 crores of estimated operating cash flow, this is our share, right? Because on few projects we have 55% revenue share 45%. Is that adjusted for that, or it is on the overall project level?

Kamal Singal: That is absolutely adjusted for everything. This is net of all expenditures. And this is only for ongoing projects and projects which are already acquired and in the process of launching. This does not include the current investment plans that the company has, because we are almost reaching a zero-debt level or we already reached a zero-debt level at this point in time and we have got fresh equity etc. etc. So we are not even counting our imminent investments which are being planned in next couple of months, 3-4 months in time from now. So this is only about this macro hedge as it exists today without counting for any investments, and this is obviously only our share and nothing else.

Moderator: The next question is from the line of from Rithwik Sheth from One Up Finance. Please go ahead.

Rithwik Sheth: I have a few questions. Firstly can you throw some light and some broad comments on the potential of the HDFC investment that they have done at the company level. In the last few years we have mentioned that our aspiration is to reach Rs. 1,000 crores. So with this investment, it looks more achievable and already we are about Rs. 500 crores. So can you throw some light on that? And you mentioned that, we are looking to change our orbit. So some broader comments on that.

Kamal Singal: So, HDFC partnership is a very strategic one and it opens quite a few avenues and competitive advantages for us. Together we can build a much stronger case for the stakeholders, consumers, and other stakeholders as well. HDFC, we started with a platform level partnership where they invested in a platform I mean, specific projects were to be taken together and the profits were to be shared. But this partnership quickly grew into a much bigger one, where they ultimately found a value in investing into the company itself. This is one of those rarest of rare occasions as far as HDFC Group is concerned for them to have a direct equity stake in a real estate company. I think this is their only second one in a long period of time that they have done like this. So that is a great satisfaction. It enhances the company profile and it enhances the credibility on one side. But at the same time, their nominee director, their MD & CEO joining the board of Arvind SmartSpaces, adds a very different dimension to what all we could think of and what all direction that we can take. I mean, HDFC Capital is one of the largest investor in various kinds of asset classes when it comes to real estate and they are experienced in not only identifying the markets, trends and their structuring capabilities, their capabilities to go through the funding side of it and the market side of it etc. this is enormous. And Mr. Vipul directly coming into the Board and spending time with us, I think that in itself is a huge advantage. And as I just mentioned Rs.1,000 crores obviously we are targeting the short-term, but Rs.500 crores before that was an even more important milestone which we achieved last year. Now we have just about entered into the growth phase post pandemic.

Pandemic we definitely took a halt in terms of investing and taking up new projects, and naturally so with a very conscious mind. We had money and we were continuously reducing debt at a pace which was very fast and we are almost debt free now. But at the same time, we knew that investments have to continue. The moment we have seen this opportunity and the pandemic clouds are so to say, very thinned out we are into a very aggressive mode of integration now and HDFC being there makes us much more comfortable about acquiring and getting into next orbit as you said.

So all in all, this is supposed to be a major boost to us. We have now enough and more fuel to invest, and that is the task going forward in next 3-4 months. Internal accruals have given us money, equity infusion has given us money and there is a very-very significant headroom to raise, even if we were to remain very conservative on debt, still there is a significant headroom. So all put together, we are planning to have a major investment cycle in next couple of months, 3 months' time from now onwards.

Rithwik Sheth: And sir, on the new acquisition that we have done in Sarjapur, I believe it is a JV as per your presentation. So when do we expect it to get approvals and launch? Will it be this year or it will be in FY23?

Kamal Singal: I think it should be more like the first quarter of next financial; a month here and there. If we are very lucky, maybe we can just work it at the last week of this financial year end. But that is too much of a precision in terms of prediction. But more like first quarter of next financial should be when we should be able to launch this.

Rithwik Sheth: And another project that we have, the upcoming one at Devanahalli so that is a JV project according to the presentation, but our economic interest is mentioned at a hundred percent. So, can you clarify on that?

Kamal Singal: So this is that HDFC platform project that you are talking about. And in the platform, HDFC as far as the entity level profits and these predictions are concerned, they entirely belong to us, because they have contributed money through an OCD route. So that is the cost side of it and whatever EBITDA and other projections are given there, they belong to us. So, that is why at the entity level, it is a hundred percent owned projects owned by entity, which is a hundred percent owned by us HDFC being an OCD provider.

Rithwik Sheth: So basically, we will be providing the interest to them and we will be getting the profits or net profits out of the project?

Rithwik Sheth: Correct. And one more clarification on the previous participant's question, even I had a similar question on the estimated operating cash flow. So, if I look at the project that we have given on the project details slides, and if I compare it to the estimated operating cash flow, it looks like that Rs. 1,200 crores of estimated operating cash flow is for the total ongoing and completed projects and upcoming projects. So is that understanding right that this is for the entire and then the JV share will have to be reduced from this, JV share and DM share in the respective projects?

Kamal Singal: No, you don't have to reduce that from the numbers. These numbers are net of what is supposed to be coming from here onwards, which belongs to Arvind SmartSpaces only. So it is all netted off from everything that you received so far, and it is also netted off against anything that we have to have pay to landlords etc.

Rithwik Sheth: Probably I will connect with Ankit offline on this.

Kamal Singal: Sure, you can take more information. There is little more details available there in the presentation. But I think if you need a little further assistance on that, you can always get in touch with the office, Ankit included, and we will be happy to provide you clarifications on this.

Rithwik Sheth: Just one last question on the projects pipeline that we would be exploring. So would it be possible to share what kind of projects and locations also we can go for with HDFC coming in now? Would we be stick to Rs. 50 to Rs. 70 crores of land parcel acquisition, and build on that or we would go for larger projects and larger JV-JDs going forward?

Kamal Singal: So there are two aspects to the project acquisition strategy. One is that we will be remaining focused on a few things. One of them being residential as our primary segment. So that will remain as it is broadly speaking, unless there is urgency or that kind of a situation where we will do some small piece other than residential. So that is one, and that remains as it is. Second is the geographical focus. So, we intend to significantly go deeper into the geography that we are in, which is Bangalore and Ahmedabad primarily, and now Pune. We have just kind of done some sort of a development in Pune, we have wetted our feet there and now we understand the regulatory environment better. So we think that it is time for us to possibly dive deeper into Mumbai, outskirts of Mumbai naturally and Pune I mean having done one of these kind of beta projects.

But apart from that, we really think that going too much wide will not be a great idea at this point in time. Every geography is a new geography. We did some nuances and hence primarily we will focus on our existing markets, which is Ahmedabad, Bangalore, and Pune of course. And as a geographical adjacency may be MMR, the outskirts areas, possibly something that we will start looking at, from here onwards. So going forward you might see action in MMR and Pune, apart from further level of investment that we intend to do in a very strong way in the existing markets of Bangalore and Ahmedabad.

Rithwik Sheth: So, would it be fair to assume that on our new JV/JDA and even buying land parcels, we can spend about Rs. 250 to Rs. 300 crores is the kind of collections, which we have on annual basis or in that range, and then construction cost of around Rs. 200 to Rs. 300 crores from FY23? Would that be a fair assessment?

Kamal Singal: You are saying Rs. 250 crores for a project or in general for the whole period?

Rithwik Sheth: Yeah. Cumulative say, for a few projects acquired outright and for JV/JDA as business development and construction cost of Rs. 200-Rs. 250 crores on an annual basis. So that would be Rs. 400 to Rs. 500 crores of about collections that we could have. So could that be a reasonable assessment? Because with the kind of internal cash flow, with the kind of leverage ratio and with HDFC coming in as well, would this be a reasonable assumption or it sounds aggressive to you?

Kamal Singal: There are two ways to look at it. One is a snapshot, which is the current snapshot in terms of where we are at this point in time. Obviously, our debt levels used to be Rs. 250-Rs. 275 crores of there about and that level has to come back, isn't it? I mean for the reasons of very strong cash flows, etc. and we having a halt in our investment cycle due to pandemic, that money obviously has been repaid but obviously it has to claimed back on a higher equity base significantly. We have added 2 years of profits and we have also added the preferential share capital which just went into the company. So the equity base has gone much wider.

But, having said that a very commonsensical understanding could be that the old level plus something is a debt headroom that we have as we speak today. So around Rs. 300-Rs. 350 crores odd, and obviously we have reserves, we have fresh equity, which has landed into our banks, which are not utilized at this point in time. So, all-in all-time investment Rs. 470 crores of investment in next 2 quarters should be fine; it is pretty much doable and targeted so to say. So that is the beginning point and from there onwards, depending upon cash flows internal accruals and how projects are long with timelines etc. we should have a very healthy investment plan every year going forward.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I just wanted to clarify one thing. Will it be fair to say, like Ahmedabad and Bangalore together next 3 to 4 years can generate Rs. 4,000 crores of revenue?

Kamal Singal: We are Rs. 500 crores sales and very soon we want to double it to a Rs. 1,000 crores sales, right, on annual basis. So in 3 to 4 years, Rs. 3,000-Rs. 4,000 crores is not a problem at all. Our inventory itself is 2000 crores at this point time from the current projects. That is very much possible. This is a small piece and it is not going too deep into these markets, it is very shallow in our understanding for those. We have done some 4-5 projects in Bangalore and 4-5 projects in Ahmedabad. But I am sure Bangalore can easily take 3-4 times what we are doing at this point in time in terms of volume and square feet etc. And hence going deeper into sell Rs. 1,000-Rs. 2,000 crores every year in these two markets should be possible. And then we are also thinking of going to MMR and Pune going forward.

Deepak Poddar: Yeah. So sir, I was also talking about the revenue recognition as well. Because we have got about Rs. 1,000 crores of unrecognized revenue and inventory of Rs. 2,900 crores. So that ideally will get recognized into revenue over the next 3-4 years, right, that entire Rs. 2,000 crores…?

Kamal Singal: Correct. On an average yes, some projects might expand a little beyond and some of them will actually happen much faster in next 1-1½ years only, a revenue recognition should also happen like that, apart from the normal kind of fluctuations, which one expects because of the times when individual projects get completed and hence accordingly coming to books of accounts. But yeah, on a very broad basis, 3-4 years is when recognition should come into our books of accounts.

Deepak Poddar: And generally the projects that we are doing is in the range of 28%-30% EBITDA margin, right, that you have maintained in the past as well.

Kamal Singal: That was fairly consistent for a long time and that is how we work on our projects and broadly speaking, 25% to 30% margin should be something that one could kind of guesstimate looking at the past trends.

Moderator: The next question is a follow-up from the line of Rithwik Sheth from One Up Finance. Please go ahead.

Rithwik Sheth: Sir, this Rs. 1,000 crores of sales value can we do it by FY24, like FY22 would be about Rs. 450-Rs. 500 crores for doubling in 3 years FY25?

Kamal Singal: We have been growing on an average. There will be obviously yearly fluctuations, but generally we have been growing at around 30% and hence to double in 3 years should be absolutely possible. And, if we are investing so heavily at this point in time, fresh launches are a very major source of fresh bookings and that is what we are expecting to go up very significantly in next 6 to 8 months' time and the investment pipeline is very-very strong. So normal growth would have taken 3 years to double, that is what we have been doing for the last 8-9 years at that rate. But because the investment cycle is changing and possibly it is stronger than what we have been doing in the past there is a chance and reason to believe that we could achieve it earlier.

Rithwik Sheth: And, just one more clarification on the estimated operating cash flow. So if I do a back of the envelope calculation, it seemed that the receivables from the sold units, along with the unsold inventory that we have and the balance cost to be incurred from the completed and ongoing projects is about Rs. 800 crores for the total projects that we have mentioned, and Rs. 400 to Rs. 450 crores for the upcoming projects, the surplus. So something is not adding up it seems like. Because the estimated operating cash flow for the entire projects mentioned is about Rs. 1,250 crores and we will have to reduce the significant portion of the JV share and in projects where we have DM fees only we will be getting only 10%. So that will also significantly reduce.

Kamal Singal: So the column, which basically reads as balance cost to be incurred, from prices of whatever we have to pay to our JV JD or DM partners. So this Rs. 2,300 will also include 90% of the money that we have to pay to the DM project and this Rs. 1,278 will only include 10% DM fee as far as we are concerned. So, obviously normally the cost to do project construction etc. can't be 2300 from this volume. Basically this is the land component included for the JV, JDs and DMs which makes this number a little higher in terms of proportion. And hence once you take that into account, the numbers start making sense and, that is how we are left with Rs. 1,278 crores to be our net cash flows.

Rithwik Sheth: So I will probably take it offline with Ankit.

Kamal Singal: Sure. If you need any clarification Ankit will be happy, and we will take and clarify this table. But as a matter of fact you can just keep that in mind that Rs. 1,278 crores takes into account construction costs, overheads, selling and distribution or whatever costs that we incur along with the land cost including the share of partnerships and all that is accounted for Rs. 2,300 crores plus the construction cost and Rs. 1, 278 crore is net of that.

Rithwik Sheth: So gross level once we complete all the projects that are listed here, about we will realize this amount at project level.

Kamal Singal: Correct.

Rithwik Sheth: Okay. And sir, one last question. What would be the cash tax that we would be paying?

Ankit Jain: So cash tax is paid based on the accounting profits. So for all the companies, it has to be paid as per the profits which is recognized in the P&L. So if there is a delay in revenue recognition or it is on a completion method, the cash outflow goes taxation will come at that point of time.

Rithwik Sheth: We pay tax when we recognize…

Ankit Jain: as per the books of accounts.

Rithwik Sheth: To that extent there is a delay in paying tax, right.

Ankit Jain: To a certain extent, what will happen is the various structures, their LLPs we would have to pay tax basis other than IndAS, which uses the POCM method. So their tax is preponed to a certain extent.

Kamal Singal: So wherever the credits are happening at LLP level or LLP entity which used to be pretty prevalent taxes for us, off late we are doing more projects directly into the company so the tax rates also more efficient there, a tax rate of 25% etc. But also, in case of company where we pay 25% we pay taxes when we recognize it significantly later after the completion of the project. Till that time it will remain in WIP and hence practically the recent projects and most of the recently done projects it will be paid or later based on completion. But in case of LLP there is a provision where we have to pay, irrespective when we recognize, we have to pay based on the old POCM method because their books of accounts are also on the POCM model. And going forward you are right; I mean the point here is that the tax payment generally will keep on gravitating towards the completion meter. When the project gets completed you in one shot pay it, as far as cash outflows are concerned as tax for the project.

Rithwik Sheth: So it would be 25% when we recognize the revenue in our books of accounts.

Kamal Singal: Correct.

Moderator: The next question is from Shantanu Mantri from Think Investments. Please go ahead.

Shantanu Mantri: Actually the previous participant he asked the question I wanted to ask. But I just have one clarification. So when we are talking about this Rs. 1,000 crores run rate, this is basically your fresh bookings for the year, right? So we are at 500 and our short-term target is to grow to Rs. 1,000 crores, right?

Kamal Singal: Correct.

Shantanu Mantri: And with the kind of investments and new launches and, the HDFC partnership and all, going to annual rate of Rs. 3,000 crores in the next 3-4 years is achievable, right?

Kamal Singal: Not Rs. 3,000 crores. We are at Rs. 500 crores, at a 30% growth rate it should take around 3 years to double it. For these initiatives the 3 year should be sort of shortened to the extent possible, and there is a likelihood and possible reason to believe. But Rs. 3,000 crores obviously is not going to be happening in 3 years. That is going to take time. And those are projections in time based on the growth rate etc. We have not really talked about it but that is a guesstimate one has to make.

Moderator: The next question is in the line of please go Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: A couple of conceptual question on the business model. As you move ahead, given the challenges involved in horizontal projects versus vertical, how should the mix evolve say, over a 3–4-year time period?

Kamal Singal: So there will always be a healthy mix. I mean, we are not going to be going either ways of too much. Current trend and the past trends have been of a little bit of our orientation going towards horizontals and within horizontals there are two very distinct segments which operate in a very different way. The plotting is one product, and the other is villas. Now villas are not very different from what all is required to be done in terms of expertise and selling and connecting with customers etc. as compared to an apartment. But plotting definitely is a very-very different animal in terms of money, in terms of commitment, in terms of upfront investments in land etc. So, I would rather say there are three segments. One is the absolute horizontal which is plotting. Second is a villa or low-rise segment, and third is apartment which high rise, say 10, 20, 25 floors etc. So within these three, I think we will be fairly balanced. There will be a little more orientation towards the segment one and two, which is plotting and villa, for reasons that we have analyzed ourselves here for the company and the direction that we want to take in next few years. But nevertheless on construction-oriented projects, like the high rise etc. even if there is a little bit of a pause, not a pause but a little less concentration on those. But nevertheless, eventually and in the long-term they will remain a very important piece in our portfolio.

Shantanu Mantri: So, is there a pipeline for especially plotting that you could share? I mean, some sense of visibility, what kind of increase would you be able to aggregate?

Kamal Singal: The two projects that we did in the last quarter etc. one is the absolute plotting product, where approximately a little less than 40, if it is already acquired, and we are at a fairly advanced stage of getting the conversion etc. done and we will launch phase one very soon, possibly in the first quarter of next year. And we are trying to almost double the size in terms of the land volume. So from 40, maybe idea and the opportunity to add another 40-45-50 acres. That becomes a fairly large investment into plotting. This land cost somewhere around a little less than Rs. 2 crores an acre. So this will be a good Rs. 150-Rs. 200 crores of investment in and one place for plotting, and it is a very promising location, and we know that there are quite a few success stories around. So that is one.

The second one is in segment B as we just discussed. It is going to be a very heavy villa product panning across 18 acres on Sajarpur Road and that is how we have acquired. So this gives a fairly good indication of the orientation, which is currently going on and we are focusing on similar projects. But we are keeping an eye open for high-rises also. But you can assume that pretty much similar projects are expected to happen in next few months.

Shantanu Mantri: And it doesn't bother you that the revenue can become a bit lumpy given the nature of the product or do you believe that there is sufficient traction in demand for being able to have a smooth run for a point of time, on A and B that is?

Kamal Singal: Can you repeat your question?

Shantanu Mantri: What I asked you was that the land development kind of projects can be somewhat lumpy in nature in terms of traction. So I am asking you in that context because being able to sell apartments much more easily versus such project, does that bother you? Doesn't that bother you? Both the ways.

Kamal Singal: Both the products and the segments have their own nuances. There are pros and there are negatives around both the products. In land-oriented products and projects, there is always higher investment involved in buying that land for sure. But that is where your JV/JD models come into play. So if we can lock large land parcels through JV/JDs, then even the upfront investment goes down, of course you have to share value from what you create on those agreements. But having acquired a land which is not too large, which is not too unmanageable for the balance sheet and from a micro market sizing point of view, once you acquire those projects for investment the contingent liability in construction goes down dramatically. To that extent in fact we are fully de-risked and you can phase them out as per your wish. So generally speaking, you buy a hundred acres you can pretty much launch 20, sell it very-very quickly and start spending money only on 20 and keep moving ahead. That doesn't have construction-oriented products. If you commit three towers, you pretty much probably need Rs. 100 crores in construction to start with, even if the land value is low. And land is less perishable, than the construction in our understanding. In fact, risk profile goes down when you are horizontal, it actually goes up when you are more vertical.

But As I said, there has to be a very judicious balance in this approach. We are a little more heavy on horizontal at this point in time. This strategy has really clicked for good reasons in the last 3-4 quarters that we saw, and that is one of the reasons we could achieve Rs. 500 crores sales comparatively quickly against what we had imagined in the beginning of the year. But that is how we want to consolidate we leave horizontal are very important and they have to be a very healthy proportion in our overall portfolio.

Kamal Singal: So thank you very much all of you for spending time and asking some very relevant questions. We will be very happy to give further clarification on anything which is left during the call. Call is a small window. But we are always there, the department is there, Ankit is there and his team will be very happy to share more information whatever is possible from our end. The quarter has gone very strong. The year is going very strong for us. Last year was one of the major milestone that we achieved. Going forward we see a lot of green shoots, a lot of reasons to believe that we are here to kind of capitalize on the right kind of environment that exists all around us. We are very-very positively placed to exploit the positive which faces us. Investments are the key; project pipeline is the key and we clearly know our priorities in terms of consolidating that. We know that we lag behind the last two quarters due to pandemic on investment cycles. But that is what the target is and that is what the endeavor is from here onwards. And we are very confident and the team is working down, quickly building a pipeline and hence the focus is on creating inventory, creating opportunities, and creating avenues to grow in terms of fresh sales. That strategy is already yielding results and we are sure that we will keep consolidating on what we have built so far. Thank you very much for joining us.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Arvind SmartSpaces Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.